

REPORT OF THE EXECUTIVE OFFICER  
State Allocation Board Meeting, April 26, 2006  
ADEQUACY OF NEW CONSTRUCTION GRANTS

PURPOSE OF REPORT

To provide a status on the review of the adequacy of the new construction grant to build new schools under the School Facility Program (SFP).

BACKGROUND

The State Allocation Board (Board) directed Staff to form a committee to determine if the SFP new construction grants are adequate to build schools in California. Specifically, the Board requested that the committee address mainly two issues: the equitability of the SFP new construction base grant amount to the equivalent allowances provided under the Lease-Purchase Program (LPP) when the State converted programs in 1998; and, if the grants are sufficient to build a complete new school today.

STAFF COMMENTS

*Establishment and Goals of the Committee*

The Grant Adequacy Ad Hoc Committee (Committee) was assembled in December 2005 and is comprised of representatives from several school districts, architectural, construction and construction management firms, consultants, the California Building Industry Association, the Department of Finance, the California Department of Education(CDE), and Board Staff members. The Committee held its first of several meetings in December 2005, and devised goals and objectives for the Committee. The Committee decided on a two-step approach toward examining the Board's request. The initial step concentrated on the first objective, which was to determine if the SFP new construction base grant was equitable at the time of conversion from the LPP.<sup>1</sup> This objective is now complete. The second assignment, determining if the grants are sufficient to build new schools today, is still under development.

*First Objective--- Methodology Employed to Conduct Analysis*

The methodology the Committee used to determine the equivalence of the new construction base grant amount at the time of conversion from the LPP to the SFP was straightforward. The Committee compiled a list of 402 projects completed under the LPP over a five-year time span, from June 1995 to August 2000. Projects that were additions to existing sites and reconstructions were removed from the list, as they do not represent complete new schools. County office of education projects, continuation high schools, and non-traditional grade configurations were also stricken from the list, as they are non-traditional schools. This left a sample of 65 elementary, 33 middle, and 29 high new school projects to develop the comparison.

Since the allowances provided under the LPP are categorized differently than they are under the SFP, the Committee determined which LPP allowance categories are comparable to the SFP new construction base grant, enabling a like comparison to be made between the LPP and SFP.

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<sup>1</sup> While only anecdotal, many districts believe the general site allowance (general site work is essentially fine grading of the site, landscaping, parking, and other items to develop a school site) is one of the missing links in the conversion of the LPP to the SFP. Under the LPP, general site work was a separate allowance.

STAFF COMMENTS (cont.)

A comparison was then made as to how much was allocated for a project under the LPP to what could have been allocated under the SFP for the same project based on the number of classrooms constructed. The percentage by which the SFP new construction base grant exceeded or was deficient compared to the LPP was then calculated.

*First Objective--- Findings*

The small data sets contributed to substantial variations in results. The data indicated some projects received up to 35 percent less, while others received up to 72 percent more funding under the SFP than the LPP. Therefore, the Committee decided to take a statistical approach to the data to reduce the data variances in a sound manner. As a result, when compared to the LPP, the percentage by which the SFP new construction base grant is deficient is estimated to be as follows:

*Chart 1: Comparison of SFP Base Grant to LPP "Base Grant"*

Description	Elementary	Middle	High
Percentage SFP Base Grant is Deficient	14.42%	27.63%	3.59%

During the analysis, the Committee was unable to definitively conclude whether the general site allowance was included in the SFP base grant at the time of the conversion. In March 2006, although not unanimous, the majority of the Committee agreed to these results.

While these resulting percentages reflect the request of the Board to determine the adequacy of the SFP new construction base per pupil grant specified in the law, the LPP and SFP consist of two vastly different funding models and the new construction base grant does not reflect the total funding that can be provided under the SFP. For example, while both the LPP and the SFP provide additional funds for building in urban or geographically remote locations, constructing multi-level facilities, or constructing small schools, the manner in which these additional funds are calculated differ significantly. While not easily described in a report, in summary, the additional grants provided under the SFP compensate for some of the deficiencies between the LPP and SFP new construction base grants. If these additional grants are considered when comparing the *total* SFP grant to the *total* LPP apportionment that can be provided for the same projects, the amount by which the SFP total funding model is deficient compared to the LPP decreases to the following:

*Chart 2: Comparison of SFP Total Project Cost to LPP Total Project Cost*

Description	Elementary	Middle	High
Percentage SFP Total Grant is Deficient	5.75%	13.07%	3.06%

The Committee conducted its analysis with the understanding that it review the equivalence of the SFP new construction base grant to the like allowances provided under the LPP. However, increasing the SFP new construction base per pupil grant by the percentages noted in Chart 1 will more than compensate for the

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STAFF COMMENTS cont.

funding deficiencies between the SFP and LPP because of the differences in the funding models, as indicated in the chart below:

*Chart 3: Percentage SFP over-funded if Base Grant Increased*

Description	Elementary	Middle	High
Percentage SFP Total Grant <i>Exceeds</i> LPP Total Apportionment if Per Pupil Grants are Increased by Percentages in Chart 1	4.38%	4.05%	3.11%

The Committee only preliminarily discussed the total funding model. While it can be argued that the amount by which the SFP total grant exceeds the LPP total apportionment is reflective of the comparison of the two programs in 1998 and that the excess grants will be absorbed by the notable increases in construction costs since 1998, further analysis is warranted. In addition, in this study the Committee analyzed in depth the new construction base grant for only new school projects on new school sites, although additions to existing sites are funded using the same criteria and model as new school projects. These two additional issues have yet to be fully vetted in the Committee.

While the Office of Public School Construction recognizes the deficiency of the SFP new construction base grant compared to the LPP for new schools, and the need for additional funds in many cases today, the issues described above are highly complex that need to be collectively and successfully resolved to ensure that we can provide sufficient funds to build complete new schools while being prudent with the limited amount of State bond dollars. Therefore, these issues should be more thoroughly analyzed during the second phase.

*Second Objective----Status*

The Committee is continuing and focusing on the second part of the Board's request---to determine if the grants are sufficient to build new schools today. The Committee recently sent 231 surveys to school districts that have completed a construction project in the last several years. The Committee is comparing actual costs incurred on projects versus what is provided by the State, as well as exploring other contributing factors that may result in insufficient funding, such as:

- Determining if projects include excess building area (square footage) for classrooms, administrative offices, and/or core facilities than what is required or recommended by the CDE, or based on the number of pupils that will be utilizing the spaces, as the excess area most likely results in additional costs that should be borne by the district;
- Assessing if the annual inflation adjustment to the per pupil grant is keeping up with actual construction and material costs;
- Evaluating if large profit margins are being garnered as a result of the flooding of the market with public works projects and substantial bond dollars; and,
- Analyzing the supplemental grants (e.g. additional funding for constructing in urban areas with limited land, the construction of multi-level facilities, geographic differences, etc.) that are available to determine if they are sufficient.

The Committee expects to complete this second phase of the analysis in the next few months.

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### NEXT STEPS

While the direction of the SAB was for Staff to determine if the SFP new construction grant is adequate to build new schools today, in order to make that determination, all portions of the funding model must be taken into consideration. The new construction funding model is now quite complex due to a number of excessive cost grants that have been added to the basic per pupil grant formula based on a variety of funding needs identified since the inception of the SFP. These changes were made to address the diversity of factors faced by California schools such as size, location (rural, urban, and suburban), geographic, and the limited number of firms participating in school construction. However, any change to the per pupil base grant amount now, in excess of the percentages identified in Chart #2, may result in a majority of SFP projects being over-funded.

### RECOMMENDATIONS

1. Accept this report.
2. Direct Staff to report back to the Board when the analysis of the entire SFP new construction funding model has been completed.